EXECUTIVE SUMMARY

CERTIFICATE OF NEED EVALUATIONS
The Ensign Group, Inc.
and
Laurel Hill Enterprises, Inc.

INTRODUCTION

The Ensign Group, Inc.

This project is subject to Certificate of Need review as the increase in the number of skilled nursing beds at an existing skilled nursing facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(h) and Washington Administrative Code (WAC) 246-310-020(1)(c) and 246-310-396(4).

Laurel Hill Enterprises, Inc.

This project is subject to Certificate of Need review as the increase in the number of skilled nursing beds at an existing skilled nursing facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(h) and Washington Administrative Code (WAC) 246-310-020(1)(c) and 246-310-396(4).

PROJECT DESCRIPTIONS

The Ensign Group, Inc.

The Ensign Group, Inc is a Delaware corporation that does not directly own, operate, or manage any healthcare facilities, however, it owns the membership interests or stock of a number of subsidiaries that do own, operate, or manage facilities. The Ensign Group was founded in 1999 and is ultimately responsible for the operations of 43 skilled nursing facilities in the states of California (27), Arizona (11), Texas (4), and Washington (1). The Ensign Group is the sole member of the Manor Park Healthcare limited liability corporation (LLC). This application was submitted by The Ensign Group, Inc., who is considered the applicant. [source: Application p2, the applicant's. website at www.ensigngroup.net and a related website known as www.ensignwatch.com]

Manor Park Healthcare, LLC is a Nevada limited liability corporation that is registered in Washington State. Manor Park Healthcare is currently the licensee and operator of Park Manor Rehabilitation Center in the city of Walla Walla. [source: Application, p2]

Park Manor Rehabilitation Center is a 79-bed skilled nursing facility (SNF) located at 1710 Plaza Way in the city of Walla Walla, within Walla Walla County. This project proposes to add 30 beds to Park Manor Rehabilitation Center, for a facility total of 109. [source: Application p2, and CN historical files] The addition of the 30 beds would be accomplished by adding another 12,740 square feet to the existing 33,290 square foot building. The additional space would include 10 private rooms, 10 semi private rooms, administrative offices and support areas, physical/occupational/speech therapy space, and common space. [source: Application, p9 and Exhibit E]

The anticipated date of commencement of construction to the facility is September 2005, with an estimated completion date of September 2006. The facility is expected to begin serving patients within the new space in October 2006. Therefore, the first full year of operation is projected to be calendar year 2007. [source: Application, p11, and December 29, 2004, supplemental information, p4]

The estimated capital expenditure for this project is $1,792,656, of which 75% is related to constructions costs; 16% is related to permits and fees; 6% is related to state sales tax; and the remaining 3% is related to equipment (both fixed and moveable). [source: Application, p20]

Laurel Hill Enterprises, Inc.
Laurel Hill Enterprises, Inc. is an Oregon, for-profit corporation whose primary business is owning, operating, or managing nursing and personal care facilities with a secondary business of skilled nursing care facilities. Two facilities owned by Laurel Hill Enterprises, Inc are Mt. Adams Care Center located in Klickitat County[1] and Regency at the Park located in Walla Walla County. This project relates to the Regency at the Park facility. [source: CN historical files and July 26, 2005, Business Risk Assessment]

Regency at the Park is an 86-bed skilled nursing facility (SNF) located at 420 Southeast Myra Road in the city of College Place, within Walla Walla County. This project proposes to add 20 beds to Regency at the Park, for a facility total of 106. [source: Application p7, and CN historical files] The addition of the 20 beds would be accomplished by adding another 14,000 square feet to the existing 43,832 square foot building. The additional space would include 6 private rooms, 14 semi private rooms, administrative offices and support areas, physical/occupational/speech therapy space, and common space. [source: Application, p8 and December 30, 2004, supplemental information, Attachment B]

The anticipated date of commencement of construction to the facility is September 2005, with an estimated completion date of January 2006. The facility is expected to begin serving patients within the new space in January 2006. Therefore, the first full year of operation is projected to be calendar year 2006. [source: December 30, 2004, supplemental information, p5] Given the delay in providing its evaluation of this project, the department recognizes that anticipated completion date could be delayed to year 2007 as the first full year of operation.

The estimated capital expenditure for this project is $2,924,795, of which 41% is related to constructions costs; 18% is related to land improvements and site preparation; 18% is related to fees and permits; 10% is related to costs associated with financing; 7% is related to state sales tax; and the remaining 6% is related to equipment (both fixed and moveable). [source: Application, pp17-18]

CONCLUSIONS
The Ensign Group, Inc.
For the reasons stated in this evaluation, The Ensign Group, Inc.'s proposal to add 30 skilled nursing beds to the existing 79 beds at Park Manor Rehabilitation Center, for a facility total of 109, is not consistent with application criteria of the Certificate of Need Program; therefore, a Certificate of Need is denied.

Laurel Hill Enterprises, Inc.
For the reasons stated in this evaluation, Laurel Hill Enterprises, Inc.'s proposal to add 20 skilled nursing beds to the existing 86 beds at Regency at the Park, for a facility total of 106, is consistent with application criteria of the Certificate of Need Program, provided the applicant's agreement to the following term.

> Before commencing construction on the project, Laurel Hill Enterprises, Inc. must provide the department with a copy of the final terms of debt financing with its funding source for review and approval. The terms of the funding must be consistent with the terms identified within the application.

Provided the applicant's agreement with the above term, a Certificate of Need should be issued. The approved capital expenditure for this project is $2,924,795.

[1] On July 27, 2000, Mt. Adams Care Center ceased operations and its 62 licensed beds were banked under the full facility closure provisions of RCW 70.30.115(13)(b).

EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY THE ENSIGN GROUP, INC PROPOSING TO ADD 30 SKILLED NURSING BEDS TO PARK MANOR REHABILITATION CENTER IN WALLA WALLA COUNTY

AND

EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY LAUREL HILL ENTERPRISES, INC. PROPOSING TO ADD 20 SKILLED NURSING BEDS TO REGENCY AT THE PARK IN WALLA WALLA COUNTY

NURSING HOME CONCURRENT REVIEW TIMELINES AND PROCEDURES

Washington Administrative Code (WAC) 246-310-130 provides the timelines for the nursing home concurrent review cycles. Subsection (5)(c) provides the timeline for applications submitted for Walla Walla County. Under this timeline, letters of intent must be submitted during the month of August, applications must be submitted during the month of September, and the department must begin review of the project(s) on December 16 or the first working day after that date. [source: WAC 246-310-130]

The concurrent review process promotes the expressed public policy goal of RCW 70.38 that the development or expansion of health care facilities be accomplished in a planned, orderly fashion and without unnecessary duplication. A concurrent review also allows the department flexibility in determining the best interests of the community's residents.

In the case of the projects submitted on behalf of The Ensign Group and Laurel Hill Enterprises, the department will issue one single concurrent review evaluation that makes a recommendation regarding whether both, neither, or one of the projects should be issued a Certificate of Need. This document is the concurrent review evaluation of the two projects.

PROJECT DESCRIPTIONS

The Ensign Group, Inc.

The Ensign Group, Inc is a Delaware corporation that does not directly own, operate, or manage any healthcare facilities, however, it owns the membership interests or stock of a number of subsidiaries that do own, operate, or manage facilities. The Ensign Group was founded in 1999 and is ultimately responsible for the operations of 43 skilled nursing facilities in the states of California (27), Arizona (11), Texas (4), and Washington (1). The Ensign Group is the sole member of the Manor Park Healthcare limited liability corporation (LLC). This application was submitted by The Ensign Group, Inc., who is considered the applicant. [source: Application p2, and The Ensign Group, Inc. website at www.ensigngroup.net and a related website known as www.ensignwatch.com]

Manor Park Healthcare, LLC is a Nevada limited liability corporation that is registered in Washington State. Manor Park Healthcare is currently the licensee and operator of Park Manor Rehabilitation Center in the city of Walla Walla. [source: Application, p2]

Park Manor Rehabilitation Center is a 79-bed skilled nursing facility (SNF) located at 1710 Plaza Way in the city of Walla Walla, within Walla Walla County. This project proposes to add 30 beds to Park Manor Rehabilitation Center, for a facility total of 109. [source: Application p2, and CN historical files] The addition of the 30 beds would be accomplished by adding another 12,740 square feet to the existing 33,290 square foot building. The additional space would include 10 private rooms, 10 semi private rooms, administrative offices and support areas, physical/occupational/speech therapy space, and common space. [source: Application, p9 and Exhibit E]

The anticipated date of commencement of construction of the facility is September 2005, with an estimated completion date of September 2006. The facility is expected to begin serving patients within the new space in October 2006. Therefore, the first full year of operation is projected to be calendar year 2007. [source: Application, p11, and December 29, 2004, supplemental information, p4] If this project is approved, the applicant could continue to meet its estimated timeline in spite of the department's delay in providing its evaluation of this project. Therefore, the department recognizes year 2007 would be the facility's first full year of operation with 109 beds.

The estimated capital expenditure for this project is $1,792,656, of which 75% is related to constructions costs; 16% is related to permits and fees; 6% is related to state sales tax; and the remaining 3% is related to equipment (both fixed and moveable). [source: Application, p20]

Laurel Hill Enterprises, Inc.

Laurel Hill Enterprises, Inc. is an Oregon, for-profit corporation whose primary business is owning, operating, or managing nursing and personal care facilities with a secondary business of skilled nursing care facilities. Two facilities owned by Laurel Hill Enterprises, Inc are Mt. Adams Care Center located in Klickitat County[2] and Regency at the Park located in Walla Walla County. This project relates to the Regency at the Park facility. [source: CN historical files and July 26, 2005, Business Risk Assessment]

Regency at the Park is an 86-bed skilled nursing facility (SNF) located at 420 Southeast Myra Road in the city of College Place, within Walla Walla County. This project proposes to add 20 beds to Regency at the Park, for a facility total of 106. [source: Application p7, and CN historical files] The addition of the 20 beds would be accomplished by adding another 14,000 square feet to the existing 43,832 square foot building. The additional space would include 6 private rooms, 14 semi private rooms, administrative offices and support areas, physical/occupational/speech therapy space, and common space. [source: Application, p8 and December 30, 2004, supplemental information, Attachment B]

The anticipated date of commencement of construction of the facility is September 2005, with an estimated completion date of January 2006. The facility is expected to begin serving patients within the new space in January 2006. Therefore, the first full year of operation is projected to be calendar year 2006. [source: December 30, 2004, supplemental information, p5] Given the delay in providing its evaluation of this project, the department recognizes that anticipated completion date could be delayed to year 2007 as the first full year of operation.

The estimated capital expenditure for this project is $2,924,795, of which 41% is related to constructions costs; 18% is related to land improvements and site preparation; 18% is related to fees and permits; 10% is related to costs associated with financing; 7% is related to state sales tax; and the remaining 6% is related to equipment (both fixed and moveable). [source: Application, pp17-18]

APPLICABILITY OF CERTIFICATE OF NEED LAW

These two projects are subject to Certificate of Need review as the increase in the number of skilled nursing beds at an existing skilled nursing facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(h) and Washington Administrative Code (WAC) 246-310-020(1)(c) and 246-310-396(4).

[2] On July 27, 2000, Mt. Adams Care Center ceased operations and its 62 licensed beds were banked under the full facility closure provisions of RCW 70.30.115(13)(b).

APPLICATION CHRONOLOGY

August 16, 2004	The Ensign Group, Inc. Letter of Intent Submitted
August 27, 2004	Laurel Hill Enterprises, Inc. Letter of Intent Submitted
September 30, 2004	Both Applications Submitted
October 1, 2004 through January 17, 2005	Department's Pre-Review Activities • 1st screening activities and responses • 2nd screening activities and responses
January 18, 2005	Department Begins Review of the Application • public comments accepted throughout review
March 18, 2005	End of Public Comment/No Public Hearing Conducted
April 18, 2005	Rebuttal Documents Received at Department
June 17, 2005	Department's Anticipated Decision Date
December 9, 2005	Department's Actual Decision Date

CONCURRENT REVIEW AND AFFECTED PARTIES

As directed under WAC 246-310-130(5)(c), the department reviewed the two projects under concurrent review. For each application, the only entity that sought and received affected person status under WAC 246-310-010 was each applicant. As a result, the department recognizes:

- Laurel Hills Enterprise, Inc. is an affected party for the application submitted on behalf of The Ensign Group, Inc; and
- The Ensign Group Inc. is an affected party for the application submitted on behalf of Laurel Hills Enterprise, Inc.

SOURCE INFORMATION REVIEWED

- The Ensign Group, Inc.'s Certificate of Need Application related to Park Manor Rehabilitation Center received September 30, 2004
- Laurel Hill Enterprise, Inc.'s Certificate of Need Application related to Regency at the Park received September 30, 2004
- The Ensign Group, Inc.'s supplemental information dated December 29, 2004, and January 26, 2005
- Laurel Hill Enterprise, Inc.'s supplemental information dated December 30, 2004, and January 27, 2005
- Public comment received during the course of the review
- Rebuttal comments received from Park Manor Rehabilitation Center dated April 15, 2005[3]
- Population data obtained from the Office Financial Management based on year 2000 census published January 2002.
- Licensing and/or survey data provided by the Department of Social and Health Services
- Data obtained for nursing homes, adult family homes, and boarding homes from Department of Social and Health Services website www.aasa.dshs.wa.gov
- Data obtained from the applicant's website at www.regencywallawalla.com
- Data obtained from the applicant's website at www.ensigngroup.net
- Data obtained from a related website at www.ensignwatch.com
- The Ensign Group, Inc.'s Business Risk Assessment provided by Department of Social and Health Services' Office of Financial Recovery received July 25, 2005
- Laurel Hill Enterprise, Inc.'s Business Risk Assessment provided by Department of Social and Health Services' Office of Financial Recovery received July 26, 2005
- Certificate of Need Historical files

[3] Laurel Hill Enterprises, Inc. did not submit rebuttal comments related to their own project.

SOURCE INFORMATION REVIEWED (continued)

- Adult Family Home and Boarding Home Data obtained by The Gilmore Research Group received October 2005
- Revised Code of Washington 70.127 governing in-home service agencies

CRITERIA EVALUATION

To obtain Certificate of Need approval, the applicant must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); 246-310-240 (cost containment) and WAC 246-310-360 (nursing home bed need method).[4]

CONCLUSION

The Ensign Group, Inc.

For the reasons stated in this evaluation, The Ensign Group, Inc.'s proposal to add 30 skilled nursing beds to the existing 79 beds at Park Manor Rehabilitation Center, for a facility total of 109, is not consistent with application criteria of the Certificate of Need Program; therefore, a Certificate of Need is denied.

Laurel Hill Enterprises, Inc.

For the reasons stated in this evaluation, Laurel Hill Enterprises, Inc.'s proposal to add 20 skilled nursing beds to the existing 86 beds at Regency at the Park, for a facility total of 106, is consistent with application criteria of the Certificate of Need Program, provided the applicant's agreement to the following term.

> Before commencing construction on the project, Laurel Hill Enterprises, Inc. must provide the department with a copy of the final terms of debt financing with its funding source for review and approval. The terms of the funding must be consistent with the terms identified within the application.

Provided the applicant's agreement with the above term, a Certificate of Need should be issued. The approved capital expenditure for this project is $2,924,795.

[4] Each criterion contains certain sub-criteria. The following sub-criteria are not relevant to this project: WAC 246-310-210(3), (4), (5), and (6).

A. Nursing Home Bed Need Method (WAC 246-310-360)

For all applications where the need for nursing home beds is not deemed met as identified in RCW 70.38.115(13), the [following] mathematical calculation will be used as a guideline and represent only one component of evaluating need.

As stated in the project description portion of this evaluation, both projects propose to add beds to existing SNFs in Walla Walla County, and the additional beds would be added to Walla Walla County's total bed count. As such, an applicant must demonstrate need for the additional beds. One component of evaluating need for additional SNF beds within a county is applying the nursing home bed need numeric method. The ratio of 40 beds per 1,000 population over 65 years of age (40/1,000) is used for projecting total bed need for SNFs in the state and within a planning area.

The methodology, outlined in WAC 246-310-360, is a four-step process. The first step requires a computation of the statewide and planning area specific estimated bed need for the projection year.[5] The second step requires a computation of the projected current supply ratio statewide and for each planning area. The third step requires a determination of the planning areas that will be under the established ratio, or over the established ratio in the projection year. The fourth, and final step, requires a comparison of the most recent statewide bed supply with the statewide estimated bed need.

Application of the first four steps of the methodology outlined above indicates that Washington State is projected to be under the 40/1,000 target ratio by 4,338 beds in year 2007--the projection year.

Step four provides further guidance if the current statewide bed supply is greater than or equal to the statewide estimated bed need, or if the current statewide bed supply is less than the statewide estimated bed need. Given that the current statewide bed supply is less than the statewide estimated bed need, the department must then determine the difference between the statewide estimated bed need and the statewide current bed supply, which is referenced as "statewide available beds." The methodology then requires a comparison of whether the "statewide available beds" is sufficient to allocate to each planning area under the establish 40/1,000 ratio enough beds to bring that planning area up to the established ratio. If there is not enough beds, the methodology directs the department to assign to each planning area under the established ratio a proportion of statewide available beds equal to the ratio of that planning area's bed need to reach the established ratio in the projection year.

The proposed health planning area for this project is Walla Walla County. As of the writing of this evaluation, Walla Walla County has 346 SNF beds. Of the 346 beds, 296 are currently licensed and 50 are banked under the full facility closure provisions of RCW 70.38.115(13)(b) and WAC 246-310-396. [source: Certificate of Need Bed Supply Log, October 15, 2005] RCW 70.38.115(13)(b) states:

> *"When an entire nursing home ceases operation, the licensee or any other party who has secured an interest in the beds may reserve his or her interest in the beds for eight years or until a certificate of need to replace them is issued, whichever occurs first. However, the nursing home, licensee, or any other party who has secured an interest in the beds must give notice of its intent to retain the beds to the department of health no later than thirty days after the effective date of the facility's closure. Certificate of need review shall be required for any party who has reserved the nursing home beds except that the need criteria shall be deemed met when the applicant is the licensee who had operated the beds for at least one year, who has operated the beds for at least one year immediately preceding the reservation of the beds, and who is replacing the beds in the same planning area."*

[5] For nursing homes applications submitted in the 2004 concurrent review cycle, 2007 is the projection year.

As stated above, beds banked under the full facility closure provisions of RCW 70.38.115(13)(b) must undergo CN review before the beds could be relicensed; however, if the licensee who banked the beds is the applicant proposing to relicense the beds within the same planning area, need for the beds would be deemed "met". Given this requirement, the department counts beds banked under full facility closure provisions of RCW 70.38.115(13)(b) as "available" beds. Therefore, the 50 beds banked by Evergreen Walla Walla Rehab Center are counted in the 346 SNF beds for the county. With 346 SNF beds in Walla Walla County, the methodology described above concludes that the county's number of beds is over the established ratio by approximately 32 beds in projection year 2007.

The Ensign Group, Inc. (EGI)

For this project, EGI did not apply the numeric methodology to calculate need for additional beds in Walla Walla County. However, the applicant asserted that the 50 beds banked under the full facility closure provisions of RCW 70.38.115(13)(b) should not be counted as available because *"in reality, these beds are not available and accessible to the community…the 50 banked beds are not in use or serving the daily needs of the community"* [source: Application, p14; and January 26, 2004, supplemental information, p3]

Laurel Hill Enterprises, Inc. (LHE)

This applicant also did not apply the numeric methodology to calculate need for additional beds in Walla Walla County. Further, LHE did not comment specifically on the numeric methodology's conclusion of no need for additional beds within the county.

In conclusion, the numeric methodology is a population based assessment to determine the baseline supply of nursing home beds within the state and a county to determine whether the existing number of beds is adequate to serve the elderly population. Based solely on the numeric methodology, the department would conclude that additional nursing home beds are not justified in Walla Walla County in the projection year 2007.

B. Need (WAC 246-310-210)

The Ensign Group, Inc.

Based on the source information reviewed, the department determines that the application is consistent with the applicable need criteria in WAC 246-310-210.

Laurel Hill Enterprises, Inc.

Based on the source information reviewed, the department determines that the application is consistent with the applicable need criteria in WAC 246-310-210.

(1) The population served or to be served has need for the project and other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need

WAC 246-310-210 requires the department to evaluate all CN applications on the basis of the population's need for the service and determine whether other services and facilities of the type proposed are not, or will not be, sufficiently available or accessible to meet that need. Additionally, subsection (6) identifies the process to be used to evaluate this sub-criterion. Specifically, if the state is below the statewide estimated bed need, the department shall determine the need for nursing home beds, including distinct part long-term care units located in a hospital licensed under chapter 70.41 RCW, based on the availability of:

1) other nursing home beds in the planning area to be served; and
2) other services in the planning area to be served. Other services to be considered include, but are not limited to: assisted living (as defined in chapter 74.39A RCW); boarding home (as defined in

chapter 18.20 RCW); enhanced adult residential care (as defined in chapter 74.39A RCW); adult residential care (as defined in chapter 74.39A RCW); adult family homes (as defined in chapter 70.128 RCW); hospice, home health and home care (as defined in chapter 70.127 RCW); personal care services (as defined in chapter 74.09 RCW); and home and community services provided under the community options program entry system waiver (as referenced in chapter 74.39A RCW). The availability of other services shall be based on data which demonstrates that the other services are capable of adequately meeting the needs of the population proposed to be served by the applicant.

Both applicants provide skilled nursing, rehabilitation, and a variety of therapies at their respective existing facilities, and assert that the community-based providers are not providing the same type of care being provided at either facility. However, the department must consider the availability of community based providers and determine whether patients could be better served in those settings.

Skilled Nursing Facilities—5 SNFs representing 346 beds

As of the writing of this evaluation, Walla Walla County has 346 SNF beds distributed among four community-based SNFs (C-SNF) and one-hospital based SNF (H-SNF). Services provided at SNFs include skilled nursing services, including convalescent or chronic care, or both, for a period in excess of twenty-four consecutive hours. Convalescent and chronic care may include but not be limited to any or all procedures commonly employed in waiting on the sick, such as administration of medicines, preparation of special diets, giving of bedside nursing care, application of dressings and bandages, and carrying out of treatment prescribed by a duly licensed practitioner of the healing arts. It may also include care of mentally incompetent or acutely ill persons. [source: RCW 18.51]

Eligibility for Medicare and Medicaid skilled nursing facility services is governed by the Centers for Medicare and Medicaid Services (CMS). Medicare covers skilled nursing facility services for as long as a patient is eligible and the patient's physician orders the services. Eligibility requirements for coverage by Medicare includes a hospital stay for three consecutive days prior to being admitted into the skilled nursing facility; further the skilled care must be required on a daily basis and the services must be those that, as a practical matter, can only be provided in a skilled nursing facility on an inpatient basis. [source: CMS Handbook: Medicare Coverage of Skilled Nursing Facility Care]

Of the total of 346 beds in Walla Walla County, 296 are currently licensed beds and 50 are banked under the full facility closure provisions of RCW 70.38.111(13)(b). The 346 beds are distributed among four community based SNFs and one hospital based SNF. Walla Walla County's total of five SNFs and the number of licensed and banked beds is shown in Table I below. [source: Certificate of Need Bed Supply Log, October 15, 2005]

Table I
Walla Walla County Bed Count by Skilled Nursing Facility

Name of Facility	# of Licensed Beds	# of Banked Beds	Total # of Beds
St. Mary Medical Center (hospital based SNF)	14	0	14
Evergreen Walla Walla Rehab Center	0	50	50
Park Manor Rehabilitation Center (applicant)	79	0	79
Regency at the Park (applicant)	86	0	86
Washington Odd Fellows Home	117	0	117
Total # of Facilities = 7	**296**	**50**	**346**

To further assist in its determination whether patients proposed to be served by either Park Manor Rehabilitation Center or Regency at the Park would also be candidates for the existing SNFs in the county, the department compared each applicant's average nursing hours per patient day with the existing C-SNF averages in the county.[6] The comparison is summarized in Table II below.[7] [source: Medicaid Cost Report data for years 2003 and 2004]

Table II
Average Nursing Hours Per Patient Day Comparison

	RN/PD	LPN/PD	NA/PD	Total NH/PD
Park Manor Rehabilitation Center	0.40	0.47	2.40	3.26
Regency at the Park	0.68	0.24	2.17	3.09
Year 2003 Walla Walla County Averages	0.66	0.44	2.33	3.43
Year 2004 Walla Walla County Averages	0.64	0.42	2.36	3.42

Based on the summary shown in Table II, both applicants' patients are comparable to the average patient accepted by the existing C-SNFs in the county. Further, when comparing each applicant's proposed RN, LPN, and NA hours per patient day to each individual facility in the county, Park Manor Rehabilitation Center and Regency at the Park closely compare with each other. [source: PMRC application, p29; RP application, pp26; and Medicaid Cost Report data-2003 and 2004]

In summary, the department concludes that the patients served by both applicants at their existing facilities would also be appropriate candidates for services by the only other operating C-SNF in the county--Washington Odd Fellows Home.

<u>Home Health Services</u>

Home health services means services provided to ill, disabled, or vulnerable individuals. Generally a home health patient is homebound, or normally unable to leave home unassisted.[8] These services are typically provided to patients that are ambulatory and, for the most part, functional with the majority of day-to-day living requirements. Home health services include skilled nursing, home health aide, medical social work, a variety of therapies, and home medical supplies or equipment services. [source: RCW 70.127.010] Home health services are typically provided to patients discharged to their homes or lower level of care by a long-term care facility or hospital.

Eligibility for Medicare and Medicaid home health services is also governed by CMS. Medicare covers home health services for as long as a patient is eligible and the patient's physician orders the services; however, skilled nursing care and home health aide services are only covered on a part-time or "intermittent" basis. This means there are limits on the number of hours per day and days per week that a patient may receive skilled nursing or home health aid services. Those limits include skilled nursing care needed fewer than seven days each week or less than eight hours each day over a period of 21 days. Medicaid may help with medical costs for some patients, however, to qualify for Medicaid, a patient must be considered a low income patient. [source: CMS Handbook: <u>Medicare and Home Health Care</u>]

As of the writing of this evaluation, Walla Walla County has four home health agencies, and of those, two are Medicare certified. Given that home health care is provided at the patient's

---

[6] It is noted that the comparison does not include the H-SNF associated with St. Mary Medical Center because that SNF serves the higher acuity patients, which is demonstrated by reviewing average nursing hours per patient day at the facility.

[7] Evergreen Walla Walla Rehabilitation Center, Park Manor Rehabilitation, Regency at the Park, Sunbridge Care & Rehabilitation of Walla Walla, and Washington Odd Fellows Home.

[8] To be homebound means that leaving home takes considerable and taxing effort. <u>[source: CMS Handbook: Medicare and Home Health Care]</u>

residence, capacity for a home health agency is typically measured by its ability to retain or recruit additional staff to meet the needs of the agency's visits. Based on the information above, the department concludes that the home health setting may be appropriate for a number of patients described within the application.

Hospice Services

Hospice programs are designed to offer symptom and pain management to terminally ill patients, and emotional, spiritual, and bereavement support for the patient and family in the final stages of the patient's life. Hospice services may be provided either in the patient's home or within an assisted living or skilled nursing center. [source: RCW 70.127.010] The county also has one hospice agency that is Medicare certified. Based on the information above, the department concludes that the hospice setting would be considered unsuitable for the majority of skilled nursing facility patients described within this application.

As of October 2005, there are 17 adult family homes operating 89 beds[9] within the county. Adult family home means a residential home in which a person or persons provide personal care, special care, room, and board to more than one but not more than six adults who are not related by blood or marriage to the person or persons providing the services. [source: RCW 70.128.010] "Personal care" means both physical assistance and/or prompting and supervising the performance of direct personal care tasks as determined by the resident's needs. Personal care services do not include assistance with tasks performed by a licensed health professional. "Special care" means care beyond personal care services as defined above. [source: WAC 388-76-540]

Additionally, as of October 2005, there are 7 boarding homes operating a total of 782 beds within Walla Walla County. A boarding home means any home or other institution that provides board and domiciliary care to seven or more residents. "Domiciliary care" is defined as **1)** assistance with activities of daily living provided by the boarding home either directly or indirectly; or **2)** health support services, if provided directly or indirectly by the boarding home; or **3)** intermittent nursing services, if provided directly or indirectly by the boarding home. [source: WAC 388-78A-020]

In previous SNF applications reviewed by CN staff, representatives from the Department of Social and Health Services (DSHS) have stated *"on the average, these types of facilities [adult family homes and boarding homes] are usually about 85% occupied."* However, neither adult family homes nor boarding homes are required to report occupancy data to any regulatory or data gathering entity, which includes its own licensing agency--DSHS. Therefore, the basis for the 85% average occupancy within these two settings has been unavailable and unclear.

To assist in its determination of whether adult family homes or boarding homes are available to meet the needs of the SNF patients in the county, the department enlisted the services of The Gilmore Research Group (GRG) located in the Pacific Northwest. GRG provides research consultation, probability sampling, and data for analysis. For this project, GRG conducted telephone interviews with managers or people in positions of authority at adult family homes and boarding homes in Walla Walla County. The purpose of the interviews was to learn more about the capacity and limitations of these facilities as alternatives to nursing home services. [source: The Gilmore Research Group website and October 18, 2005, report, p1]

[9] Of the 17 AFH, 2 would not disclose the number of beds within the facility; as a result, the 89 beds is an undercount of the total number of beds within the county.

For Walla Walla County, GRG contacted 15 of the total of 17 adult family homes (or 88% of the total adult family homes) representing all 89 beds and all 7 boarding homes (or 100% of the total boarding homes) representing 782 beds. A summary of the GRG research is shown below.

Adult Family Homes—15 homes representing 89 beds

Below is a breakdown of the payer sources accepted at the 15 homes contacted by GRG.

Payer Sources Accepted	# of AFHs	# of beds	% of Beds (336)
Both Medicare and Medicaid	8	47	53%
Medicaid only (not included above)	7	42	47%
Totals	**15**	**89**	**100%**

As shown in the chart above, almost half of the adult family homes in the county accept both Medicare and Medicaid patients, and all 15 homes accept at least Medicaid only patients. Given that the majority of SNF patients are Medicare or Medicaid recipients, this portion of the evaluation will continue to focus on all 15 homes.

GRG also requested the AFH representative to identify any limitations in the types of patients accepted into the facility. Examples of limitations identified by the AFH representatives include:

- ambulatory patients only;
- accept dementia patients only;
- no "round-the-clock" nursing care;
- no patients under 55 years old;
- no bariatric [obese] patients; and
- no mental health or violent behavior patients.

Of the 15 homes, only 3 offered services with no limitations—representing a total of 22 AFH beds. Further of the 3 facilities and 22 beds—only 2 beds were vacant at the time of the survey. Representatives of the 2 facilities stated that that their current lack of vacant beds is typical for the facility. In summary, while a few SNF patients may be served in AFHs, the Walla Walla County AFHs that could serve the SNF patients have limitations or no vacancies.

Boarding Homes—7 homes representing 782 beds

Of the 7 homes contacted, only 1 home accepts both Medicare and Medicaid patients, and the remaining 6 homes accept only Medicaid patients. The chart below shows the number of beds associated with the breakdown above.

Type of Patients Accepted	# of BHs	# of beds	% of Beds (782)
Both Medicare and Medicaid	1	504	64%
Medicaid Only	6	278	36%
Totals	**7**	**782**	**100%**

Given that the majority of SNF patients are Medicare or Medicaid recipients, this portion of the evaluation will continue to focus on all 7 homes.

GRG also requested the BH representative to identify any limitations in the types of patients accepted into the facility. Of the 7 BH, 6 had limitations. Examples of limitations identified by the BH representatives include:

- ambulatory patients only;
- no patients requiring skilled nursing care;

- no bariatric [obese] patients; and
- no mental health or violent behavior patients
- dementia diagnoses only.

Regarding the one BH with 504 beds that accepts either Medicare or Medicaid patients, only 15 of the beds were vacant at the time of the survey, which equates to 97% occupancy. The remaining 6 BHs that accept Medicaid only--representing 278 beds--had a combined total of 23 vacant beds, equating to an overall occupancy for all 7 BHS of 95%. Representatives of the all 7 facilities stated that their current number of vacant beds is a typical representation of the facility's vacancy, or lack of vacancy. In summary, as with the AFH above, while a few SNF patients may be served in BHs, most SNF patients would not be candidates for the BH setting because of BH limitations and lack of vacancies.

The Ensign Group, Inc. (EGI)

To support its position that an additional 30 beds are needed at Park Manor Rehabilitation Center and the existing nursing home providers are not available or accessible, EGI provided the following assertions. [source: Application, pp13-14]

- *Walla Walla [county] residents have increasingly had to relocate out of area to get timely access to skilled care. These relocations both within and outside of Washington State--place an additional and unnecessary burden on residents and families who must travel longer distances for care and visitation.*
- *Some residents have also opted to remain at home until a local nursing home bed becomes available. Depending upon the care needs of the potential patient, families may or may not be able to meet their specific needs; thus placing additional strain on the family and potentially placing the resident at risk;*
- *Reduced access has resulted in reduced choice; especially for immediate admission. As residents are being discharged from area hospitals, if a nursing home bed is available, residents are increasingly unable to choose a facility and must go to the facility with the vacant bed--or risk having to leave the area all together. Remaining in the hospital for a few extra days is not an option when the patient no longer meets acute care admission criteria.*

In response to the department's request to provide documentation to support the assertions above, EGI provided three letters of support which are summarized below. [source: January 26, 2005, supplemental information, Attachment 1]

- Walla Walla General Hospital - 4 or 5 times in the last two-three months, patients needing rehab were transferred out of the area [signed by Case Manager for Hospital]
- St. Mary Medical Center-in 2004, 4 patients were placed in the Tri-Cities; also 2-5 avoidable days per month because skilled nursing facilities don't have a bed available for an acute care patient. [signed by Director of Care Management]
- Clarkston/Walla Walla DSHS Home and Community Services-we are aware of 5 people being placed outside of 'our area' in the past 6 months. Additionally, 2 people were kept in VMAC longer than the VA would have liked to have them there due to no NF vacancies in Walla Walla. [signed by Acting Regional Administrator for HCS]

The applicant concludes in the need section of its application that given the documented access problems, the relatively high occupancy of remaining providers, and the unusual situation of having *167 beds and 36% of total capacity in full facility closure*, adding 30 beds to Park Manor Rehabilitation Center is justifiable and necessary to preserve [patient] access in Walla Walla County. [source: Application, p16]

Laurel Hill Enterprises, Inc. (LHE)

To demonstrate need for an additional 20 beds to Regency at the Park and the existing nursing home providers are neither available nor accessible, the applicant provided the following statement.

> *"The reduced capacity has unduly limited access to care and/or delayed needed admissions. The approval of this project would increase access and choice for those in need of long term care."*
>
> [source: December 30, 2005, supplemental information, p6]

Additionally, LHE provided a report prepared on July 9, 2004, entitled *Elderly Housing Analysis--A Report on Elderly Market Conditions and Needs Walla Walla County, Washington*. [source: Application, Exhibit C] The document was prepared exclusively for this project by CC Consulting, a consulting company located in the city of Malaga, within Chelan County. According to page 1 of the document, the report was prepared to determine the elderly housing need in the Walla Walla County market region and to determine the market and need for skilled nursing home beds in the county. The Walla Walla County market analysis was conducted using standard accepted practices in urban planning, market analysis, and housing development need projections. Additionally, the market analysis uses the following types of data:

- Quantitative data - such as US Census and Office of Financial Management data;
- Qualitative data - such as local contracts, expert interviews; and
- Primary data - such as existing comparables and/or reports as key information sources.

The market analysis provides an overview and summary of skilled nursing [bed] availability and provides the following conclusions:

1) Walla Walla County has a large percentage of population aged 65 and older compared to Washington State as a whole.
2) Walla Walla County's aged 65 and older population has grown by almost 15% from 1990 to 2003 (13 years).
3) Walla Walla County's aged 65 and older population is expected to increase by almost 34% by the year 2025 (20 years).
4) Walla Walla County's has 4,653 person aged 75 or older population which equates to 8.3% of the total population in the county.
5) There are 296 licensed skilled nursing beds in the county, less than 282 are designated as long-term skilled nursing beds
6) 8.2% of Walla Walla County's 65 and older residents are living in poverty.
7) 10.5% of the city of Walla Walla's 65 and older residents are living in poverty.
8) Based on a July 5, 2004, interview with each of the four operational SNFs in Walla Walla County, "*of the 296 skilled nursing beds available, only five beds were vacant. St. Mary's Medical Center has 14 beds but those are restricted to short term (10 days or less) transitional care only. The limited amount of beds, combined with a large (8,273) and increasing number of elderly, indicate that Walla Walla County is not able to meet the existing need and will not be able to meet the expanding future need if available beds are not increased."*

Additionally, the applicant provided a summary of the survey conducted on July 5, 2004, listing each facility's vacancies and wait list information. An excerpt of the summary is shown in the chart on the following page. [source: Application, Exhibit C]

Facility Name	# of beds	Vacancy	Wait List	Comments
Park Manor Rehab	79	5 beds	No	Generally have only a couple of openings at any one time.
Washington Odd Fellows Home	117	0 beds	Yes	There are 11 patients on the waiting lists, which is consistent with historical.
Regency at the Park (applicant)	86	0 beds	Yes	There are 30 to 40 patients on the wait list. They also offer extended care and Alzheimer care services.
St. Mary Medical Center	14	0 beds	N/A	No skilled nursing beds. Transitional care only. Have only temporary or occupational beds for 10-day stays or less. If a longer stay is necessary, the patient is referred to a skilled nursing facility.
Total for Walla Walla County	296	5 beds	More than 41 patients on the waiting lists. The 5 vacant beds represent 1.7% of the total number of licensed beds in the county.	

Information submitted in opposition to these two projects was provided DSHS, Aging and Adult Administration Division. [source: December 16, 2004, public comment] Information provided in support of the projects were provided local residents of the county. [source: February 8, 2005, public comment]

In order to assess the comments provided by both applicants and examine skilled nursing care in Walla Walla County more closely, the department used data submitted by the applicants, data submitted in support of the applications, and data submitted in opposition to the applications. Further, the department reviewed cost reports obtained from DSHS. This information includes annual Medicaid cost report raw data and summaries for 2003 and 2004. The DSHS cost report information includes all Washington State skilled nursing facilities, both community- and hospital-based, eligible to provide Medicaid services for Washington State residents. A summary of the department's review is shown below by topic, and excerpts of the comments provided in opposition are addressed by topic where appropriate.

Population growth in Walla Walla County

LHE asserts that population growth in Walla Walla County is significant and nursing home beds have not increased in several years.

To evaluate this assertion, the department obtained population data from the Office Financial Management (OFM) for both Washington State and Walla Walla County. In January 2002, OFM released new county and state projections for the Growth Management Act. The projection series starts with the year 2000 census as a base and uses actual growth trends through the 1990s and prior historical periods to develop county growth expectations. In January 2004, OFM published a tracking report to evaluate how the annual population estimates for 2001 through 2003 line up with the 2005 Growth Management Act projections.[10] The tracking report provided the following summaries regarding population growth in Washington.

- one-third of the counties are tracking closely--within one percent--of the 'intermediate' series range;[11]

[10] The full tracking report can be obtained at http://www.ofm.wa.gov/pop/index/htm#growth.
[11] Projections are provided by three series: low, intermediate, and high. Low series projections would project a slower growth than both the intermediate or high series. Under usual and normal circumstances, the CN Program bases its projections on the intermediate series.

- all but two counties (Franklin and Pend Oreille) are tracking within the high and low projection series range; and
- about 70% of the counties are tracking below their intermediate projection series.

The Walla Walla County graph within the OFM document shows that the county is tracking within the intermediate series and very close to the low series projection range.

On June 28, 2005, OFM provided a press release regarding Washington State growth. Within that press release, OFM indicates that Washington State's population has grown approximately 1.4%, in the past year, which is slightly higher than the 1.1 % growth in the previous year. Further, the document identified the fastest growing counties based on the percentage of change since the 2000 census. Those counties are Benton, Clark, Franklin, and San Juan. Walla Walla County is identified within this document as 19^{th} in the state for fast growing counties. [source: OFM data]

The department also compared Walla Walla County's percentage of persons 65 and older with the state. That comparison is shown in the chart below.

Area	2005 Population Estimate	% change from 2000-2005	# of persons 65 & older	% of persons 65 & older
Washington	6,256,400	6.15%	712,092	11.4%
Walla Walla County	57,500	4.20%	8,395	14.6%

As shown above, Walla Walla County's percentage of growth is not significant when compared to the average in the state; however, the percentage of persons 65 and older is greater for Walla Walla County than for the state. Based on OFM data sources, the department does not concur with LHE that the population growth in the county is significant, however the department notes the significant number of persons age 65 plus in the county.

Existing nursing homes are fully occupied

Both applicants assert that the existing facilities in the county are either fully occupied or operating at a high utilization. In support of this assertion and the need for additional SNF beds in the community, the following entities provided letters of support.

- Southeast Washington Aging and Long Term Care;
- St. Mary Medical Center;
- Walla Walla General Hospital;
- Garrison Creek Lodge, licensed boarding home in Walla Walla County;
- Eagle Meadows, licensed assisted living facility in Walla Walla County; and
- Two residents in the county.

The focus of the above support centered on the May 2003 closure of Evergreen Rehab Center (50 beds) and the February 2004 closure of Sunbridge Care and Rehab (117 beds), resulting in 167 beds that are no longer licensed in the county. This reduction in licensed beds creates difficulty in placing patients quickly and appropriately.

As previously stated, there are 346 beds distributed among four C-SNFs and one H-SNF in Walla Walla County. Of the 346 beds, 296 are currently licensed and 50 are banked under the full facility closure provisions of RCW 70.38.115(13)(b). [source: Certificate of Need Bed Supply Log, October 15, 2005]

For CN purposes, WAC 246-310-010 defines "bed supply" as *nursing home beds which are licensed or certificate of need approved but not yet licensed or beds banked under the provisions of RCW 70.38.111 (8)(a) or where the need is deemed met under the provisions of RCW 70.38.115 (13)(b).* Based on the definition above, the department must count all 346 beds as available beds in its review of these two applications.

For DSHS cost reporting purposes, facility occupancy is reported on the number of licensed beds within a facility. Tables III below summarizes the occupancy of licensed SNF beds in operation in years 2003 and 2004 at the C- and H- SNFs in Walla Walla County. [source: Year 2003 and 2004 DSHS cost report data and Year 2003 and 2004 CHARS data]

Tables III
Walla Walla County Year 2003 Number of Beds and Average Occupancy

	# of Lic'd Beds	Bed Occp'y %	# of Lic'd Beds Available	Plus FFC Banked Beds
St. Mary Medical Center TCU	14	81%	3	0
Evergreen Walla Walla Rehab Center	50	33%	34	0
Park Manor Rehab Center (applicant)	79	77%	18	0
Regency at the Park (applicant)	86	95%	4	0
Sunbridge Care & Rehab of Walla Walla	117	47%	62	0
Washington Odd Fellows Home	117	95%	6	0
Totals/Average Occupancy	**463**	**71%**	**127**	**0**

Walla Walla County Year 2004 Number of Beds and Average Occupancy

	# of Lic'd Beds	Bed Occp'y %	# of Lic'd Beds Available	Plus FFC Banked Beds
St. Mary Medical Center TCU	14	82%	3	0
Evergreen Walla Walla Rehab Center	0	0	0	50
Park Manor Rehab Center (applicant)	79	92%	6	0
Regency at the Park (applicant)	86	98%	2	0
Washington Odd Fellows Home	117	97%	4	0
Totals/Average Occupancy	**296**	**92.3%**	**15**	**50**

St. Mary Medical Center operates a 14 bed skilled nursing unit, typically known as a "transitional care unit" or "TCU." This distinction was noted in documents provided by Laurel Hill Enterprises on page 14 of this evaluation and is supported by the application submitted by St. Mary Medical Center in its establishment of the 14 bed transitional care unit (TCU). [source: CN historical files and department's February 23, 1996, evaluation of St. Mary Medical Center CN application #96-04]

Transitional care patients are stated to require a high level of skilled nursing care and typically need regular access to acute care resources, such as emergency support or daily diagnostic tests or treatments. Typically, transitional care patients require the following:

- frequent (at least daily) physician assessment or physician intervention;
- at least 5.78 direct total nursing service hours per day;
- at least 2.61 hours per day of direct licensed nurse (RN/LPN) service hours; and/or
- emergency medical support, frequent diagnostic or laboratory services, and/or a variety of therapies.

As a result, while the 14 beds at St. Medical Center are available and accessible to the community, the TCU setting would not be appropriate for all SNF patients. Further, it is noted that the 2003 and 2004 occupancy of St. Mary's TCU was 81% and 82%, respectively. A 14 bed TCU at that occupancy could only accommodate 2 or 3 more patients.

Evergreen Walla Walla Rehab Center closed in May 2003 and requested to bank the 50 beds under full facility closure. From the low occupancy percentage shown in year 2003 above, it is clear that Evergreen Walla Walla Rehab Center was in the process of discharge planning and coordination for its residents as required under DSHS rules in order to meet its closure deadline in May. [12]

Sunbridge Care and Rehab of Walla Walla's date of closure was February 2004. While the 117 Sunbridge beds are banked under full facility closure, those beds are not counted because they were banked by Sound Health Management, the receivership for the facility. Before the 117 Sunbridge- Walla Walla beds could become operational, the project must undergo CN review, and since Sound Health Management was not the licensee of the facility for the previous 12 months before closure, need for the beds would not be deemed met. It appears from the year 2003 occupancy percentage at the Sunbridge facility was also in the process of discharge planning and coordination for its residents. The department also noted a low utilization for year 2002, approximately two years before closure. The reason for this low occupancy is not known by the department.

In order to examine the impact of the full facility closures of both Sunbridge Care and Rehab and Evergreen Rehab Center, the department examined years 2003 and 2004 total patient days for the county. A summary of the data is shown below.

Year	Total # of Patient Days	# of Lic'd Beds	County Average Occp'y %
2003	111,747	463	71.3%
2004	102,866	296	92.3%

As shown above, year 2004 total patient days decreased approximately 8% from year 2003, however, the number of licensed beds decreased 36% in the same time period. While 92% occupancy is not considered to be exceptionally high, 92% occupancy is considerably higher than the state average of 86%, and facilities cannot maintain that occupancy and remain available and accessible to accommodate additional patients as needed.

Information provided in opposition to these two projects was submitted by Department of Social and Health Services (DSHS). [source: December 16, 2004, letter from Penny Black, director of the Home and Community Services Division of DSHS]

The position of DSHS regarding the Walla Walla projects is unclear. On the one hand, DSHS provided the following statements:

"We oppose all of the applications, and would prefer activation of banked beds prior to issuance of any new C of N applications. …In summary, we oppose the applications that would add more beds to the system. Our caseload forecast for nursing homes shows a decrease from the current census of about 12,600 Medicaid residents to 11,460 Medicare residents in June 2007. The addition of unneeded nursing home capacity would considerably hinder our ability to meet this goal."

On the other hand, DSHS provided the statements below specific to Walla Walla County:

"With the exception of Spokane area and Walla Walla, none of the regions reported difficulty in locating residential options for Medicaid clients in their area. As you know, HCS [Home and Community Services] has been very successful in the past decade in promoting the use of less costly, less restrictive settings such as assisted living, boarding homes, and adult

[12] WAC 388-97-595.

family homes as alternatives to nursing homes. As displayed on the enclosed grid, all affected areas should be able to continue this strategy within existing resources." "Regarding Walla Walla, the occupancy for the county is 76%. Our grid shows that nursing homes are always full in that area, which suggests that the nursing homes are reserving beds for non-Medicaid residents, an issue we continue to confront. In addition, there seems to be ample alternatives to nursing home care in that area."

The grid referenced above by DSHS and provided as an attachment to the letter includes three important factors that were incorrect for Walla Walla County.

1) <u>DSHS counts 167 beds banked under full facility closure</u>.
   As previously explained, while 167 beds are banked, only 50 of those beds--Evergreen Rehab Center--should be counted as available in the department's mathematical calculation of need.
2) <u>DSHS incorrectly identified 463 licensed beds in the county</u>.
   Beds banked under full facility closure are not licensed, therefore, there are 296 licensed beds in Walla Walla County.
3) <u>Based on 40/1,000 calculations, DSHS identified 314 beds would be needed in year 2004; 311 beds in year 2005; and 312 beds in 2006 for Walla Walla County. When DSHS subtracted the 463 beds identified in #2 above, the grid shows an overabundance of 149 beds in 2004; 152 beds in 2005; and 151 beds in 2006</u>.
   If the correct number of licensed beds (296) were subtracted from DSHS's projections above, Walla Walla County would require an additional 18 beds in 2004, 15 beds in 2005, and 16 beds in 2006.

DSHS also provided a document entitled <u>*Review of Resources for Communities Re: C of N Applicants December 2004*</u>. The document lists resources for Walla Walla County with the following statements.

- 4 boarding homes in Walla Walla have 45 vacancies, approximately 24 available for Medicaid;
- 12 adult family homes with 15 vacancies, approximately 8 available for Medicaid;
- 3 nursing homes in Walla Walla are usually full. Evergreen Nursing Facility and Sunbridge nursing facility both closed with[in] past two years. <u>Clients sometimes go to Milton-Freewater Oregon or Tri-Cities</u>. [emphasis added]

In preparing its December 16, 2004, information, DSHS states it "*queried our regional Home and Community Services staff regarding availability of long term care options in the affected areas…and enclosed a summary of the responses from the regions."* After reviewing the document and its attachments, it is unclear whether DSHS performed an audit of existing community based providers in the county in December 2004, or whether the December 2004 date is simply referencing the date of the attached letter--December 16, 2004. In previous SNF applications reviewed by CN staff, representatives from DSHS have stated *"on the average, these types of facilities are usually about 85% occupied."* However, neither adult family homes nor boarding homes are required to report occupancy data to any regulatory or data gathering entity, which includes its own licensing agency--DSHS. As a result, the basis for the 85% average occupancy within these two settings is unavailable and unclear. Further, it is unsubstantiated by research data obtained by GRG and provided to the department specific for Walla Walla County. In conclusion, without further specific information related to the community resources referenced by DSHS above, the statements provided are considered unsubstantiated.

In reference to the information provided by DSHS specific to Walla Walla County, DSHS recognizes that some nursing home patients must travel out of area to receive SNF services. This is evidenced by the letter provided by DSHS HCS in support of the Park Manor Rehabilitation Center project. The letter submitted by Ms. Black referenced above, however, evidently considers this to be an acceptable solution if SNF beds are not available within the county. Further, DSHS clearly believes that patients' traveling out of area to receive SNF services is preferable to adding SNF beds to Walla Walla County. DOH disagrees.

RCW 70.38.015 provides the public policy statements related to the CN Program. Specifically, health planning should promote, maintain, and assure the health of all citizens in the state, and to provide accessible health services, health manpower, health facilities, and other resources while controlling excessive increases in costs. If patients in Walla Walla County are traveling out of the area, whether to the Tri-Cities or the state of Oregon, because SNFs in the county are unavailable and accessible, then the addition of SNF beds to the county is necessary.

WAC 246-310-380(5) states:
"The department shall not issue certificates of need approving more than the net estimated bed need indicated for a given planning-area, unless:
(a) The department finds such additional beds are needed to be located reasonably close to the people they serve; and
(b) The department explains such approval in writing."

On the basis of the information provided during the review of this project and research by Certificate of Need staff, the department concludes that need for additional bed capacity in Walla Walla County is demonstrated and supported by the data. Given the limited availability and accessibility of the existing providers, need for an additional 50 beds--or approval of both projects--is warranted. This sub-criterion is met.

(2) *All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.*
As previously stated, both applicants provide health care services to residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups. To determine whether all residents of the service area would continue to have access to an applicant's proposed services, the department requires applicants to provide a copy of its admission policy. To determine whether low income residents would have access to the proposed services, the department uses the facility's Medicaid eligibility or contracting with Medicaid as the measure to make that determination.

The Ensign Group, Inc. (EGI)

For this project, the applicant provided a copy of its admission policy currently used by Park Manor Rehabilitation Center. The policy demonstrates that all residents of the service area currently have access to skilled nursing services and patients would continue to appropriately be admitted to Park Manor Rehabilitation Center provided that the patient was a candidate for nursing care. The policy also indicates that patients are admitted to Park Manor Rehabilitation Center without regard to age, race, color, religion, sex, national origin, handicap, or sexual preference and will be treated with respect and dignity. Additionally, the applicant provided documentation to demonstrate that the facility currently provides, and will continue to provide, services to the Medicare and Medicaid patients. [source: Application, p4 and Exhibit G]

Based upon the information provided, the department concludes all residents of the service area currently have access to Park Manor Rehabilitation Center and approval of this project would not negatively affect that access. This sub-criterion is met.

Laurel Hill Enterprises, Inc. (LHE)

To demonstrate compliance with this sub-criterion, the applicant provided a copy of its admission policy currently used by Regency at the Park. The policy demonstrates that all residents of the service area currently have access to skilled nursing services and patients would continue to appropriately be admitted to Regency at the Park provided that the patient was a candidate for nursing care. The policy also indicates that patients are admitted to Regency at the Park without regard to age, race, color, religion, sex, national origin, handicap, or sexual preference and will be treated with respect and dignity. Additionally, the applicant provided documentation to demonstrate that the facility currently provides, and will continue to provide, services to the Medicare and Medicaid patients. [source: Application, Exhibit B and December 30. 2004, supplemental information, pp3-4]

Based upon the information provided, the department concludes all residents of the service area currently have access to Regency at the Park and approval of this project would not negatively affect that access. This sub-criterion is met.

C. Financial Feasibility (WAC 246-310-220)

The Ensign Group, Inc.

Based on the source information reviewed, the department determines that the application is not consistent with the applicable financial feasibility criteria in WAC 246-310-220.

Laurel Hill Enterprises, Inc.

Based on the source information reviewed and with the term outlined on page 7 of this evaluation, the department determines that the application is consistent with the applicable financial feasibility criteria in WAC 246-310-220.

(1) The immediate and long-range capital and operating costs of the project can be met.

The Ensign Group, Inc. (EGI)

The anticipated date of commencement of construction of the facility is September 2005, with an estimated date of completion of September 2006. The facility is expected to begin serving patients within the new space in October 2006. Therefore, the first full year of operation is projected to be calendar year 2007. [source: Application, p11, and December 29, 2004, supplemental information, p4]

As stated earlier in this evaluation, the estimated capital expenditure for this project is $1,792,656, of which 75% is related to constructions costs; 16% is related to permits and fees; 6% is related to state sales tax; and the remaining 3% is related to equipment (both fixed and moveable). [source: Application, p20]

To determine whether Park Manor Rehabilitation Center would meet its immediate and long range operating costs with an additional 30 SNF beds, the department evaluated projected balance sheets for the first three years of operation as a 109 bed facility. A summary of the balance sheets is shown in Tables IV on the following page. [source: December 29, 2004, supplemental information, Exhibit 11, Schedule B]

Tables IV
Park Manor Rehabilitation Center Balance Sheet for Projected Years 2007-2009

Year 2007

Assets		Liabilities	
Total Current Assets	$ 2,588,000	Total Current Liabilities	$ 339,000
Fixed Assets	$ 206,000	Other Liabilities	$ 0
Other Assets	$ 2,000	**Total Liabilities**	**$ 339,000**
		Equity	$ 2,457,000
Total Assets	**$ 2,796,000**	**Total Liabilities and Equity**	**$ 2,796,000**

Year 2008

Assets		Liabilities	
Current Assets	$ 3,002,000	Current Liabilities	$ 340,000
Fixed Assets	$ 206,000	Other Liabilities	$ 0
Other Assets	$ 2,000	**Total Liabilities**	**$ 340,000**
		Equity	$ 2,870,000
Total Assets	**$ 3,210,000**	**Total Liabilities and Equity**	**$ 3,210,000**

Year 2009

Assets		Liabilities	
Current Assets	$ 3,452,000	Current Liabilities	$ 341,000
Fixed Assets	$ 206,000	Other Liabilities	$ 0
Other Assets	$ 2,000	**Total Liabilities**	**$ 341,000**
		Equity	$ 3,319,000
Total Assets	**$ 3,660,000**	**Total Liabilities and Equity**	**$ 3,660,000**

In addition to the projected balance sheets provided above, the applicant also provided its Statement of Operations for years 2007 through 2009 as a 109 bed facility. [source: December 29, 2004, supplemental responses, Exhibit 5, Schedule C] A summary of the Statement of Operations is shown in Table V below.

Table V
Park Manor Rehabilitation Center Statement of Operations Summary
Projected Years 2007 through 2009

	Year One (2007)	Year Two (2008)	Year Three (2009)
# of Beds	109	109	109
# of Patient Days	37,797	37,797	37,797
% Occupancy	95%	95%	95%
Net Revenue*	$ 6,172,000	$ 6,249,000	$ 6,330,000
Total Expense	$ 5,794,000	$ 5,836,000	$ 5,881,000
Net Profit or (Loss)	$ 378,000	$ 413,000	$ 449,000
Net Revenue per patient day	$ 163.29	$ 165.33	$ 167.47
Total Expenses per patient day	$ 153.29	$ 154.40	$ 155.59
Net Profit or (Loss) per patient day	$ 10.00	$ 10.93	$ 11.88

*Includes deductions for bad debt and contractual allowances

As shown in Table V above, the applicant anticipates it will operate Park Manor Rehabilitation Center at a profit in the first three years of operation as a 109 bed facility.

In Washington State, Medicaid nursing facility rates are set by the Nursing Home Rates Section of the Office of Rates Management part of the Aging and Disability Services Administration of the Department of Social and Health Services. Medicaid rates for long term care nursing facilities are set individually for each specific facility. Rates are based generally on a facility's costs, its occupancy level, and the individual care needs of its residents. The Medicaid payment rate system does not guarantee that all allowable costs relating to the care of Medicaid residents will be fully reimbursed. The primary goal of the system is to pay for nursing care rendered to Medicaid-eligible residents in accordance with federal and state laws, not to reimburse costs--however defined--of providers. A facility's overall Medicaid rate is comprised of rates for the following seven separate components:

- Direct care - nursing care and related care provided to residents
- Therapy care - speech, physical, occupational, and other therapy
- Support services - food and dietary services, housekeeping, and laundry
- Operations - administration, utilities, accounting, and maintenance
- Variable return - an incentive payment for relative efficiency
- Property - depreciation allowance for real property improvements, equipment and personal property used for resident care
- Financing allowance - return on the facility's net invested funds i.e., the value of its tangible fixed assets and allowable cost of land
  [source: An Overview of Medicaid Rate Setting for Nursing Facilities in Washington provided by DSHS]

For existing nursing homes, the component rates are based on examined and adjusted costs from each facility's cost report. Direct care, therapy care, support services, operations and variable return component rates for July 1, 2001, through June 30, 2004, are based on 1999 cost reports. Property and financing allowance components are rebased annually. [source: An Overview of Medicaid Rate Setting for Nursing Facilities in Washington provided by DSHS]

All component rates require, directly or indirectly, use of the number of resident days--the total of the days in residence at the facility for all eligible residents--for the applicable report period. Resident days are subject to minimum occupancy levels. Effective July 1, 2002, the minimum occupancy for direct care, therapy care, support services, and variable return component rates is 85%; for operations, financing allowance, and property component rates, the minimum occupancy rate is 90%.[13] If resident days are below the minimum, they are increased to the imputed occupancy level, which has the effect of reducing per resident day costs and the component rates based on such costs. If the actual occupancy level is higher than the minimum, the actual number of resident days is used. [source: An Overview of Medicaid Rate Setting for Nursing Facilities in Washington provided by DSHS]

Information obtained from the Office of Rates Management within DSHS indicates that Park Manor Rehabilitation Center's Medicaid reimbursement rate without the additional 30 beds would be approximately $113 per patient day. Within Park Manor Rehabilitation Center's pro forma Statement of Operations, the applicant anticipates the addition of 30 beds to the 79 bed facility would result in an increased rate of $124.56 for years 2007-2009. However, information obtained from the Office of Rates Management indicates that the addition of 30 beds to Park Manor Rehabilitation Center would reduce its Medicaid reimbursement rate to approximately $107 per patient day.[14] Staff from the Office of Rates Management provided the following explanation for the reduced rate:

[13] For essential community providers--i.e., facilities at least a forty minute drive from the next closest nursing facility--the minimum occupancy is set at 85% for all components in recognition of their location in lesser-served areas of the state. Park Manor Rehabilitation Center does not meet the definition of an essential community provider.
[14] The rates are approximate and are not guaranteed.

"The estimated rate decreases mainly because the costs for four of the cost components are still based on the 1999 rebase year when the facility had 79 beds. When we [Office of Rates Management] increase the beds to 109, we basically have to take the cost for the 79 bed facility and divide by 85 to 90% occupancy of a 109 bed facility. The same cost and many more days cause the rate per patient day to decrease."

This reduction in Medicaid reimbursement results in a substantial reduction in revenues for years 2007 through 2009 for Park Manor Rehabilitation. The department re-calculated the applicant's Statement of Operations with the reduced Medicaid reimbursement which is shown in Table VI below.

Table VI
Park Manor Rehabilitation Center
Revised Statement of Operations Summary
Projected Years 2007 through 2009

	Year One (2007)	Year Two (2008)	Year Three (2009)
# of Beds	109	109	109
# of Patient Days	37,797	37,797	37,797
% Occupancy	95%	95%	95%
Net Revenue*	$ 5,664,045	$ 5,741,045	$ 5,822,045
Total Expense	$ 5,794,000	$ 5,836,000	$ 5,881,000
Net Profit or (Loss)	($ 129,955)	($ 94,955)	($ 58,955)
Net Revenue per patient day	$ 149.85	$ 151.89	$ 154.03
Total Expenses per patient day	$ 153.29	$ 154.40	$ 155.59
Net Profit or (Loss) per patient day	($ 3.44)	($ 2.51)	($ 1.56)

*Includes deductions for bad debt and contractual allowances

As shown in Table VI above, with the reduced Medicaid reimbursement, Park Manor Rehabilitation Center would be operating at a loss of $129,955 in year 2007, which decreases to a lost of $58,955 by the end of year 2009. This loss is based on the facility's ability to reach its projected 95% occupancy of the 109 beds in each of the three years of operation as projected by the applicant. If the applicant is unable to meet its projected occupancy levels, then the loss could be greater.

Based on the financial information above, the department concludes that the long-term capital and operating costs of this project may not be met, and the financial viability of Park Manor Rehabilitation Center could be jeopardized if the additional 30 beds are added to the facility. Therefore, this sub-criterion is not met.

Laurel Hill Enterprises, Inc. (LHE)

The anticipated date of commencement of construction of the facility is September 2005, with an estimated date of completion of January 2006. The facility is expected to begin serving patients within the new space in January 2006. Therefore, the first full year of operation is projected to be calendar year 2006. [source: December 30, 2004, supplemental information, p5] Given the delay in providing its evaluation of this project, the department recognizes that anticipated completion date could be delayed to year 2007 as the first full year of operation. However, when submitting this application, the applicant appropriately estimated its first three years of operation to be 2006 – 2008.

The estimated capital expenditure for this project is $2,924,795, of which 41% is related to constructions costs; 18% is related to land improvements and site preparation; 18% is related to fees and permits; 10% is related to costs associated with financing; 7% is related to state sales tax; and the remaining 6% is related to equipment (both fixed and moveable). [source: Application, pp17-18]

To determine whether Regency at the Park would meet its immediate and long range operating costs with an additional 20 SNF beds, the department evaluated projected balance sheets for the first three years of operation as a 106 bed facility. A summary of the balance sheets is shown in Tables VII below [source: January 27, 2005, supplemental information, 2nd Exhibit, Schedule B]

Tables VII
Regency at the Park Balance Sheet for Projected Years 2006-2008

Year 2006

Assets		Liabilities	
Total Current Assets	$ 1,197,883	Total Current Liabilities	$ 713,000
Fixed Assets	$ 7,825,034	Other Liabilities	$ 6,874,431
Other Assets	$ 0	**Total Liabilities**	**$ 7,587,431**
		Equity	$ 1,435,486
Total Assets	**$ 9,022,917**	**Total Liabilities and Equity**	**$ 9,022,917**

Year 2007

Assets		Liabilities	
Current Assets	$ 1,769,347	Current Liabilities	$ 723,000
Fixed Assets	$ 7,510,634	Other Liabilities	$ 6,693,431
Other Assets	$ 0	**Total Liabilities**	**$ 7,416,431**
		Equity	$ 1,863,550
Total Assets	**$ 9,279,981**	**Total Liabilities and Equity**	**$ 9,279,981**

Year 2008

Assets		Liabilities	
Current Assets	2,391,505	Current Liabilities	733,000
Fixed Assets	7,196,234	Other Liabilities	6,508,431
Other Assets	0	**Total Liabilities**	**7,241,431**
		Equity	2,346,308
Total Assets	**9,587,739**	**Total Liabilities and Equity**	**9,587,739**

In addition to the projected balance sheets provided above, the applicant also provided its Statement of Operations for years 2006 through 2008 as a 106 bed facility. [source: December 30, 2004, supplemental responses, Attachments D & G, Schedules A & C] A summary of the Statement of Operations is shown in Table VIII on the following page.

Table VIII
Regency at the Park Statement of Operations Summary
Projected Years 2006 through 2008

	Year One (2006)	Year Two (2007)	Year Three (2008)
# of Beds	106	106	106
# of Patient Days	33,978	36,763	36,340
% Occupancy	88%	92%	94%
Net Revenue*	$ 6,339,633	$ 6,528,268	$ 6,726,123
Total Expense	$ 5,911,568	$ 6,046,017	$ 6,194,445
Net Profit or (Loss)	$ 428,065	$ 482,251	$ 531,678
Net Revenue per patient day	$ 186.58	$ 182.54	$ 185.09
Total Expenses per patient day	$ 173.98	$ 169.06	$ 170.46
Net Profit or (Loss) per patient day	$ 12.60	$ 13.48	$ 14.63

*Includes deductions for bad debt and contractual allowances

As shown in Table VIII, above, the applicant anticipates it will operate Regency at the Park at a profit in the first three years of operation as a 106 bed facility.

In Washington State, Medicaid nursing facility rates are set by the Nursing Home Rates Section of the Office of Rates Management part of the Aging and Disability Services Administration of the Department of Social and Health Services. Medicaid rates for long term care nursing facilities are set individually for each specific facility. Rates are based generally on a facility's costs, its occupancy level, and the individual care needs of its residents. The Medicaid payment rate system does not guarantee that all allowable costs relating to the care of Medicaid residents will be fully reimbursed. The primary goal of the system is to pay for nursing care rendered to Medicaid-eligible residents in accordance with federal and state laws, not to reimburse costs--however defined--of providers. A facility's overall Medicaid rate is comprised of rates for the following seven separate components:

- Direct care - nursing care and related care provided to residents
- Therapy care - speech, physical, occupational, and other therapy
- Support services - food and dietary services, housekeeping, and laundry
- Operations - administration, utilities, accounting, and maintenance
- Variable return - an incentive payment for relative efficiency
- Property - depreciation allowance for real property improvements, equipment and personal property used for resident care
- Financing allowance - return on the facility's net invested funds i.e., the value of its tangible fixed assets and allowable cost of land
  [source: An Overview of Medicaid Rate Setting for Nursing Facilities in Washington provided by DSHS]

For existing nursing homes, the component rates are based on examined and adjusted costs from each facility's cost report. Direct care, therapy care, support services, operations and variable return component rates for July 1, 2001, through June 30, 2004, are based on 1999 cost reports. Property and financing allowance components are rebased annually. For new nursing homes, such as this project, the initial Medicaid rate is set using a peer group review. [source: DSHS WAC 388-96-710(3)]

All component rates require, directly or indirectly, use of the number of resident days--the total of the days in residence at the facility for all eligible residents--for the applicable report period. Resident days are subject to minimum occupancy levels. Effective July 1, 2002, the minimum occupancy for direct care, therapy care, support services, and variable return component rates is 85%; for operations, financing allowance, and property component rates, the minimum occupancy rate is

90%.[15] If resident days are below the minimum, they are increased to the imputed occupancy level, which has the effect of reducing per resident day costs and the component rates based on such costs. If the actual occupancy level is higher than the minimum, the actual number of resident days is used. [source: An Overview of Medicaid Rate Setting for Nursing Facilities in Washington provided by DSHS]

Information obtained from the Office of Rates Management within DSHS indicates that Regency at the Park's Medicaid reimbursement rate without the additional 20 beds would be approximately $144 per patient day. Within Regency at the Park's pro forma Statement of Operations, LHE anticipates the addition of 20 beds to the 86 bed facility would result in a 2006-2008 rate of $149.54, $143.15, and $147.44, respectively. However, information obtained from the Office of Rates Management indicates that the addition of 20 beds to Regency at the Park would reduce its Medicaid reimbursement rate to approximately $142 per patient day for all three years.[16] Staff from the Office of Rates Management provided the following explanation for the reduced rate:

> *"The estimated rate decreases mainly because the costs for four of the cost components are still based on the 1999 rebase year when the facility had 86 beds. When we [Office of Rates Management] increase the beds to 106, we basically have to take the cost for the 86 bed facility and divide by 85 to 90% occupancy of a 106 bed facility. The same cost and many more days cause the rate per patient day to decrease."*

This reduction in Medicaid reimbursement results in a reduction in revenues for years 2006 through 2008 for Regency at the Park. The department re-calculated the applicant's Statement of Operations with the reduced Medicaid reimbursement which is shown in Table IX below.

Table IX
Regency at the Park
Revised Statement of Operations Summary
Projected Years 2006 through 2008

	Year One (2006)	Year Two (2007)	Year Three (2008)
# of Beds	106	106	106
# of Patient Days	33,978	36,763	36,340
% Occupancy	88%	92%	94%
Net Revenue*	$ 6,156,156	$ 6,498,877	$ 6,587,007
Total Expense	$ 5,911,568	$ 6,046,017	$ 6,194,445
Net Profit or (Loss)	$ 244,588	$ 452,860	$ 392,562
Net Revenue per patient day	$ 181.18	$ 181.72	$ 181.26
Total Expenses per patient day	$ 173.98	$ 169.06	$ 170.46
Net Profit or (Loss) per patient day	$ 7.20	$ 12.66	$ 10.80

*Includes deductions for bad debt and contractual allowances

As shown in Table IX above, with the reduced Medicaid reimbursement, Regency at the Park would still be operating at a profit in all three years as a 106 bed facility. This profit is based on the facility's ability to reach its projected occupancies in all three years of operation as projected. If the applicant is unable to meet its projected occupancy levels, then Regency at the Park could be operating a break even or a slight loss.

[15] For essential community providers--i.e., facilities at least a forty minute drive from the next closest nursing facility--the minimum occupancy is set at 85% for all components in recognition of their location in lesser-served areas of the state. Regency at the Park does not meet the definition of an essential community provider.
[16] The rates are approximate and are not guaranteed.

Based on the financial information above, the department concludes that the long-term capital and operating costs of this project would be met, and the financial viability of Regency at the Park would be acceptable with an additional 20 beds. Therefore, this sub-criterion is met.

(2) *<u>The costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services.</u>*
To assist the department in its evaluation of this sub-criterion, Office of Rates Management, within DSHS provides summary of the reasonableness of building construction costs, which includes a building lid calculation. The building lid calculation is determined by:

1) locating the class of construction (A, B, C, D) and quality of construction (good, average, low) and multiplying by the number of beds proposed by the appropriate per bed base cost; and
2) identifying the appropriate base cost for the facility (using the same class and quality of construction).

These figures are added to determine the construction cost lids. Final lid values will be adjusted for inflation using the actual charge in the appropriate cost indexes. Additionally, *"the building lid only affects the property and finance allowance components of the Medicaid rate."*[17] [source: Office of Rates Management evaluations]

Below is a summary of the Office of Rates Management review for both projects.

<u>The Ensign Group, Inc. (EGI)</u>
The building lid calculation for the addition of 30 beds to Park Manor Rehabilitation Center in Walla Walla is determined to be $7,367,397. Total construction expenditures for this project are $1,744,184, as a result, the amount over the building lid is determined to be zero.

Further, DSHS compared the proposed Medicaid rate to those facilities operating in Walla Walla County for year 2003. That comparison revealed that the Medicaid rate projected in the application was considerable higher than the rate calculated by DSHS with an additional 30 beds. This issue was addressed in the previous sub-criterion.

As stated in the need section of this evaluation, the year 2003 per patient day costs were compared to those of the operating C-SNFs in Walla Walla County. On the basis of that comparison, Park Manor Rehabilitation Center's per patient day costs are within the average range and do not appear to be unreasonable.

Based on the above review, the department concludes that the costs of this project would not result in an unreasonable impact on the costs and charges for health services in the community. This sub-criterion is met.

<u>Laurel Hill Enterprises, Inc. (LHE)</u>
The building lid calculation for the addition of 20 beds to Regency at the Park in Walla Walla is determined to be $9,570,104. Total construction expenditures for this project is $5,742,438, as a result, the amount over the building lid is also determined to be zero.

Further, DSHS compared the proposed Medicaid rate to those facilities operating in Walla Walla County for year 2003. That comparison revealed that the Medicaid rate projected in the application

[17] The building lid calculation is an estimate based on information from a CN application. The calculation of the lid does not guarantee the inclusion of any costs considered in the calculation within the Medicaid rate [per DSHS]

was slightly higher than the rate calculated by DSHS with an additional 20 beds. This issue was addressed in the previous sub-criterion.

As stated in the need section of this evaluation, the year 2003 per patient day costs were compared to those of the operating C-SNFs in Walla Walla County. On the basis of that comparison, Regency at the Park's per patient day costs are within the average range and do not appear to be unreasonable.

Based on the above review, the department concludes that the costs of this project would not result in an unreasonable impact on the costs and charges for health services in the community. This sub-criterion is met.

(3) The project can be appropriately financed.

The Ensign Group, Inc. (EGI)

As stated in the project description portion of this evaluation, the estimated capital expenditure for this project is $1,792,656, of which 75% is related to constructions costs; 16% is related to permits and fees; 6% is related to state sales tax; and the remaining 3% is related to equipment (both fixed and moveable). [source: Application, p20]

The Ensign Group, Inc. will fund the project from reserves of Park Manor Rehabilitation Center. To demonstrate that the funding is available, the applicant provided it most recent audited financial reports for years 2001, 2002, and 2003, and a letter of commitment from The Ensign Group, Inc. [source: Application, Exhibits I and J]

After reviewing the applicant's December 31, 2003, audited financial report, the department concludes that the proposed financing is the most prudent approach, and would not negatively affect EGI's total assets, total liability, or general financial health. This sub-criterion is met.

Laurel Hill Enterprises, Inc. (LHE)

The estimated capital expenditure for this project is $2,924,795, of which 41% is related to constructions costs; 18% is related to land improvements and site preparation; 18% is related to fees and permits; 10% is related to costs associated with financing; 7% is related to state sales tax; and the remaining 6% is related to equipment (both fixed and moveable). [source: Application, pp17-18]

LHE intends to obtain the funding for this project through a commercial loan with Red Mortgage Capital, Inc. a lending institution headquartered in Columbus, Ohio and specializing in senior housing. [source: Red Capital Group website]

LHE anticipates a 35 year loan with a fixed interest rate of 6.25% – 6.5%, however, within the application, LHE did not provide any detailed information regarding its intent to obtain a loan for this project. In response to the department's request for detailed loan information, LHE stated *"when the additional beds are approved, we will be working with Red Mortgage Capital for our financing needs."* [source: December 30, 2004, supplemental information, p8]

To demonstrate that LHE has sufficient reserves to fund the project if necessary, LHE provided its most recent audited financial reports for years 2001, 2002, and 2003. A review of the historical financial reports indicates that LHE could fund the project through reserves if necessary. However, given that LHE intends to obtain a commercial loan for this project and did not provide sufficient documentation demonstrating that the funds are available to LHE, if this project is approved, the department would attach a term to the approval requiring LHE to provide loan information before commencement of the project. With this term, the department would conclude that this sub-criterion is met.

D. Structure and Process (Quality) of Care (WAC 246-310-230)

The Ensign Group, Inc.

Based on the source information reviewed, the department determines that the application is consistent with the applicable structure and process of care criteria in WAC 246-310-230.

Laurel Hill Enterprises, Inc.

Based on the source information reviewed, the department determines that the application is consistent with the applicable structure and process of care criteria in WAC 246-310-230.

(1) *A sufficient supply of qualified staff for the project, including both health personnel and management personnel, are available or can be recruited.*

The Ensign Group, Inc. (EGI)

Park Manor Rehabilitation Center is currently operating as a 79 bed facility, and as such, is currently staffed to accommodate the types of patients served. If this project is approved, EGI anticipates an overall increase of 25.5 FTEs. Table X below shows the breakdown of FTEs [source: December 29, 2004, supplemental information, Exhibit 7]

Table X
Park Manor Rehabilitation Center Current and Projected FTEs

FTE	Current	Projected Increase	Total
RNs	4.50	2.50	7.00
LPN	7.00	2.00	9.00
Nurses Aides & Assistants	31.00	14.00	45.00
Dietary Total	6.50	2.50	9.00
Administration Total	12.75	2.50	15.25
All Others Total[18]	9.75	2.00	11.75
Total FTE's	**71.50**	**25.5**	**97.00**

As shown in Table X above, EGI expects to recruit approximately 25.5 additional FTEs to accommodate the additional patients as a 109 bed facility. In addition to the FTEs above, Park Manor Rehabilitation Center currently contracts approximately 6 positions related to medical director, therapists, dieticians, pharmacists. With an additional 30 beds, Park Manor Rehabilitation Center would increase its contracted positions from 6 to 9, which would include additional dietitians, pharmacists, and a plant engineer.

EGI states that it has had little difficulty recruiting staff for its existing facility and does not anticipate difficulty recruiting more staff for the additional 30 beds. To maintain its current staffing, Park Manor Rehabilitation uses the following strategies:

- offer a certified nursing assistant training class;
- encourage and support staff to obtain additional training and education for more advanced licensing;
- provide clinical experience for licensed nursing programs;
- offer sign on and referral bonuses;
- offer flexible scheduling; and

[18] All others include therapy staff, admission/marketing staff, and activity assistants.

- offer competitive wage and benefit packages.

Further, the applicant has the option to offer full time employment to current part-time employees. [source: Application, p30]

Based on the information provided in the application, the department concludes that EGI provided a comprehensive approach to recruit and retain staff necessary for the additional 30 beds. Additionally, as previously stated, the department compared years 2002 and 2003 average nursing hours per patient day of existing Walla Walla County C-SNFs with the applicants proposed nursing hours per patient day. That comparison revealed that Park Manor Rehabilitation Center's projected nursing hours per patient day are comparable to the county's average (see Table II within this evaluation).

Based on the above evaluation and information provided in the application, the department concludes that qualified staff can be recruited. This sub-criterion is met.

Laurel Hill Enterprises, Inc. (LHE)

Regency at the Park is currently operating as an 86 bed facility, and as such, is currently staffed to accommodate the types of patients served. If this project is approved, the applicant does not anticipate any increase in FTEs with the addition of 20 SNF beds. Table XI below shows the breakdown of FTEs [source: December 30, 2004, supplemental information, Attachment 1]

Table XI
Regency at the Park Current FTEs

FTE	Current/Total
RNs	8.80
LPN	4.40
Nurses Aides & Assistants	28.10
Dietary Total	5.30
Administration Total	15.00
All Others Total[19]	5.10
Total FTE's	**66.70**

As shown in Table XI above, with 86 SNF beds, Regency at the Park employs less FTEs than Park Manor Rehabilitation Center even though Park Manor Rehabilitation Center currently operates seven more beds that Regency at the Park. However, as with Park Manor Rehabilitation Center, Regency at the Park also has contracted positions. Regency at the Park contracts with approximately 128 positions, which include dietitians and therapists. With an additional 20 beds, Regency at the Park expects to increase its contracted positions from 128 to 130, which would include additional therapists.

The applicant also states that it has had little difficulty recruiting staff for its existing facility and does not anticipate difficulty retaining staff with an additional 20 beds. To maintain its current staffing, Regency at the Park uses the following strategies:

- advertise in the local paper;
- on-line recruiting and application process;
- draw on established relationships with Walla Walla Community College;
- draw on established subscription of "Nursing Opportunities" network that advertises nationally to promote and recruit for the facility.

[source: Application, p26]

[19] All others include therapy staff, admission/marketing staff, plant engineer, and activity assistants.

Based on the information provided in the application, the department concludes that LHE provided a comprehensive approach to retain staff necessary for the additional 20 beds. Additionally, as previously stated, the department compared years 2002 and 2003 average nursing hours per patient day of existing Walla Walla County C-SNFs with the applicants proposed nursing hours per patient day. That comparison revealed that Regency at the Park's projected nursing hours per patient day are comparable to the county's average (see Table II within this evaluation).

Based on the above evaluation and information provided in the application, the department concludes that qualified staff can be recruited. This sub-criterion is met.

(2) *The proposed service(s) will have an appropriate relationship, including organizational relationship, to ancillary and support services, and ancillary and support services will be sufficient to support any health services included in the proposed project.*

The Ensign Group, Inc. (EGI)

As an established provider of SNF services in Walla Walla County, Park Manor Rehabilitation Center has already established ancillary and support services. In response to this sub-criterion, the applicant states that the addition of 30 beds at the facility will not require any expansion of existing ancillary or support services, nor will it require the establishment of any new ancillary or support services. [source: Application, p30]

Based on the above information provided in the application, the department concludes that Park Manor Rehabilitation Center will have appropriate relationships with ancillary and support services as a 109 bed facility. This sub-criterion is met.

Laurel Hill Enterprises, Inc. (LHE)

Regency at the Park currently has established relationships, including ancillary and support services, as existing provider of SNF services in Walla Walla County. In response to this sub-criterion, the applicant states that the addition of 20 beds at the facility will not require any expansion of existing ancillary or support services, nor will it require the establishment of any new ancillary or support services. [source: Application, p26]

Based on the above information provided in the application, the department concludes that Regency at the Park will have appropriate relationships with ancillary and support services as a 106 bed facility. This sub-criterion is met.

(3) *There is reasonable assurance that the project will be in conformance with applicable state licensing requirements and, if the applicant is or plans to be certified under the Medicaid or Medicare program, with the applicable conditions of participation related to those programs.*

The Ensign Group, Inc. (EGI)

As stated in the project description portion of this evaluation, EGI is a Delaware corporation that does not directly own, operate, or manage any healthcare facilities, however, it owns the membership interests or stock of a number of subsidiaries that do own, operate, or manage facilities. EGI was founded in 1999 and is ultimately responsible for the operations of 43 skilled nursing facilities in the states of California (27), Arizona (11), Texas (4), and Washington (1). EGI is the sole member of the Manor Park Healthcare limited liability corporation (LLC). [source: Application p2, and EGI website at www.ensigngroup.net and a related website known as www.ensignwatch.com]

To evaluate the compliance history of EGI, the department contacted the licensing entities for the 42 out-of-state facilities in California, Arizona, and Texas, where EGI has ownership, management, or operational responsibilities. Information submitted by two of the three states (Texas did not respond) indicate some significant non-compliance issues related to staffing levels and sub-standard patient care at many of the facilities in California and one facility in Arizona.

Further, Nursing Home Watch, a coalition of senior advocates, nursing home workers, nursing home residents and family members, Service Employees International Union (SEIU), and community supporters established a website entitled Ensign*Watch*.[20] This website provides more detailed data on some significant non-compliance issues related to staffing levels and sub-standard patient care within EGI facilities. Within its own website [www.ensigngroup.net], EGI provides responses to the statements made by Ensign*Watch*, specifically stating that quality of care issues found at the facilities were cited before EGI assumed ownership, management, or operational responsibilities. This appears to be the case at some of the facilities; however, not all of the facilities were cited before EGI assumed its responsibilities.

Manor Park Healthcare, LLC is a Nevada limited liability corporation that is registered in Washington State. Manor Park Healthcare is currently the licensee and operator of Park Manor Rehabilitation Center in the city of Walla Walla. [source: Application, p2]

In the most recent three years, there were no significant non-compliance issues at Park Manor Rehabilitation Center, and when the facility's staffing data is compared to the Washington State and the national averages, many of the staffing comparisons are within an acceptable range. [source: compliance survey data provided by DSHS and NH Compare prepared by Medicare] Park Manor Rehabilitation Center's most recent survey, completed November 25, 2005, revealed acceptable standards related to quality of care, resident assessment, resident rights, nutrition and dietary, pharmacy, and environmental issues.

In summary, while the out-of state facilities, specifically California, appear to be experiencing substandard quality of care and staffing issues, the Washington State facility appears to be operating substantially in compliance. Given the quality of care issues revealed in California, if this project is approved, the department would attach a condition to the approval requiring EGI to maintain its quality of care within the facility.

Based on the above information provided in the application and agreement to the condition related to quality of care and staffing, the department concludes that EGI would continue to operate Park Manor Rehabilitation Center in compliance with applicable state licensing requirements. Further, given that the facility would continue to be certified under the Medicaid and Medicare programs, with the above condition, Park Manor Rehabilitation would be in compliance with the applicable conditions of participation related to those programs as a 109 bed facility. This sub-criterion would be met.

Laurel Hill Enterprises, Inc. (LHE)

As stated in the project description portion of this evaluation, LHE is an Oregon, for-profit corporation whose primary business is owning, operating, or managing nursing and personal care facilities with a secondary business of skilled nursing care facilities. Two facilities owned by LHE are this facility--Regency at the Park—and a facility that closed in year 2000 known as Mt. Adams Care Center located in Klickitat County. [source: CN historical files and July 26, 2005, Business Risk Assessment]

[20] EnsignWatch is stated to be totally independent of The Ensign Group www.ensignwatch.com

To evaluate the compliance history of LHE and Regency at the Park, the department reviewed the quality of care history Regency at the Park. In the most recent three years, there were no significant non-compliance issues at Regency at the Park, and when the facility's staffing data is compared to the Washington State and the national averages, many of the staffing comparisons are within an acceptable range. [source: compliance survey data provided by DSHS and NH Compare prepared by Medicare] Regency at the Park's most recent survey, completed January 5, 2005, revealed acceptable standards related to quality of care, resident assessment, resident rights, nutrition and dietary, pharmacy, and environmental issues.

Based on the above information, the department concludes that there is reasonable assurance that Regency at the Park would continue to operate in conformance with applicable state and federal licensing and certification requirements as a 106 bed facility. This sub-criterion is met.

(4) The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area's existing health care system.

The Ensign Group, Inc. (EGI)

In addition to the ancillary and support services in the previous sub-section, Park Manor Rehabilitation currently has a transfer agreement with both St. Mary Medical Center and Walla Walla General Hospital, both in Walla Walla County. Park Manor Rehabilitation Center regularly transfers patients to, and receives patients from, both hospitals. Further, Park Manor Rehabilitation Center has service agreements with home health and hospice providers in the county. [source: Application, p32]

To further demonstrate continuity with the area's health care system, the applicant provided its most recent three year historical placement of patients after discharge from the facility. That data revealed that the majority of Park Manor Rehabilitation Center's patients are discharged home or home with home health services. [source: Application, p32]

Based on the above information, the department concludes that EGI demonstrated current continuity in the provision of health care at Park Manor Rehabilitation Center, and approval of this project would not result in an unwarranted fragmentation of skilled nursing services within the existing health care system. Therefore, this sub-criterion is met.

Laurel Hill Enterprises, Inc. (LHE)

In addition to the ancillary and support services in the previous sub-section, Regency at the Park also has current transfer agreements with both St. Mary Medical Center and Walla Walla General Hospital. Regency at the Park regularly transfers patients to, and receives patients from, both hospitals. Further, Regency at the Park has service agreements with assisted living, home health, and hospice providers in the county. [source: Application, p26, Sections 3-10]

To further demonstrate continuity with the area's health care system, the applicant provided its most recent three year historical placement of patients after discharge from the facility. That data revealed that the majority of Regency at the Park's patients are discharged home and, if appropriate, often discharged to an assisted living facility. [source: Application, p26, Sections 3-10]

Based on the above information, the department concludes that LHE demonstrated current continuity in the provision of health care at Regency at the Park, and approval of this project would not result in an unwarranted fragmentation of skilled nursing services within the existing health care system. Therefore, this sub-criterion is met.

(5) *There is reasonable assurance that the services to be provided through the proposed project will be provided in a manner that ensures safe and adequate care to the public to be served and in accord with applicable federal and state laws, rules, and regulations.*
For both applicants, this sub-criterion is addressed in sub-section (3) above. This sub-criterion is met.

E. Cost Containment (WAC 246-310-240)
The Ensign Group, Inc.
Based on the source information reviewed, the department determines that the application is not consistent with the applicable cost containment criteria in WAC 246-310-240.

Laurel Hill Enterprises, Inc.
Based on the source information reviewed, the department determines that the application is consistent with the applicable cost containment criteria in WAC 246-310-240.

(1) *Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.*
The Ensign Group, Inc. (EGI)
In response to this sub-criterion, the applicant considered only the alternative of do nothing before submitting this application. EGI dismissed this option because of the closure of two nursing homes in the county, equating to 167 non-operational beds. This action by the two nursing homes has increased occupancy percentages in the remaining four facilities. EGI anticipates an average occupancy for the remaining facilities to be near 95%, which is considered by EGI to be an unreasonably high occupancy. [source: Application, 33]

In the need section of this evaluation, the department concurred with EGI's position regarding need for additional beds in the county; however, in the financial feasibility section of this evaluation, the department concluded that the applicant's long-term capital and operating costs of this project may not be met with the reduced Medicaid reimbursement calculated by DSHS. As a result, approval of this project could jeopardize the viability of Park Manor Rehabilitation Center.

Based on the information provided above, the department concludes that this project is not the best alternative, and this sub-criterion is not met.

Laurel Hill Enterprises, Inc. (LHE)
In response to this sub-criterion, the LHE also considered only the alternative of do nothing before submitting this application. LHE also dismissed this option because of the closure of two nursing homes in the county, resulting in high occupancy in the remaining four facilities. LHE states that the facility was initially built and designed for future expansion, and the chosen design for additional 20 beds allows for resident centered care and staff efficiencies. [source: December 30, 2004, supplemental information, pp12-13]

In the need section of this evaluation, the department concurred with LHE's position regarding need for additional beds in the county, and concluded in the financial feasibility section of this evaluation that the long-term capital and operating costs of this project would be met even with the reduced Medicaid reimbursement calculated by DSHS.

Based on the information provided above, the department concludes that this project is the best alternative, and this sub-criterion is met.